



Oklahoma State Department of Health
Creating a State of Health

Oklahoma State Department of Health

Corrective Action Report

January 1, 2018

Executive Summary

At a time when all of state government is struggling to do more with less, to continue providing essential services with reduced resources, it was revealed the Oklahoma State Department of Health (OSDH) was in dire financial straits. The Legislature appropriated, and the Governor approved, a critical infusion of funds in the amount of \$30 million. With the money came a message loud and clear—Fix It! Get the Department of Health back on track. The agency has taken up this charge with determination.

Much has been accomplished in the few short weeks since the change in administration. The \$30 million in supplemental funds allowed OSDH to stabilize payroll and turn its attention to issues causing the staggering financial crisis in which OSDH finds itself.

The Senior Leadership team has been strengthened by pulling in experienced individuals who are intent upon effecting positive change for this organization. Focus has been directed on previously ignored or dismissed business areas, like finance, to understand the position of OSDH and implement actions, which will ensure the current situation does not occur in the future. Partnerships are being leveraged to breakdown obstacles and identify innovative ways to collaborate on improving public health.

As you read this report, you will find OSDH has already begun taking steps to reduce costs, such as suspending the child abuse prevention program, changing policies related to fleet utilization and reevaluating cell phone distribution criteria. You will find a brief description of the accounting issues under which the agency has been functioning and a clear and detailed path to financial health.

To ensure future administrations will have the qualifications to manage a large organization positively impacting Oklahoma's health, OSDH Senior Leadership has worked to shore up an organizational structure, which will be proposed for the Board of Health's approval.

A long and challenging road lies ahead. I look forward to laboring alongside all of the hardworking OSDH staff to build an agency foundation supporting Oklahoma's health. Please feel free to contact me if you have questions or suggestions regarding the information in this report.

Respectfully,

A handwritten signature in black ink, appearing to read "Peter R. Doocy".

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Introduction

On October 30, 2017, then Commissioner of Health officially submitted his resignation to the Board of Health (BOH) effective immediately. The Senior Deputy Commissioner of Health also resigned effective immediately. Their resignations came amidst mounting evidence of financial mismanagement at the Oklahoma State Department of Health (OSDH).

The Board unanimously selected Preston Doerflinger, Director of the Office of Management and Enterprise Services, as Interim Commissioner effective October 31, 2017. He has been charged to take up the reins of management, clean up business operations and ensure the continuity and fiscal soundness of OSDH.

The immediate crisis to be addressed was the debilitating cash position of the agency. The first order of business was to ensure sufficient cash was on hand to make the next two payrolls, an issue that was in question. Payroll averaged \$5.8 million every two weeks at that time.

With the Legislature in Special Session, it became imperative that a supplemental infusion of funding would be necessary to make payroll (approximately \$11.6 million). However, this would only provide stability for two payrolls. It would not allow the agency to make sufficient progress to ensure future payrolls were funded or that actions could be taken to resolve the underlying cause of the situation in which the agency found itself.

The Oklahoma State Department of Health requested a supplemental appropriation from the Legislature for \$30 million to stabilize the financial situation and allow the agency to take the necessary action to turn OSDH around. In the First Special Session of 2017, House Bill 1019, Section 169 appropriated \$30 million to the agency. In addition, House Bill 1028 was passed requiring OSDH to:

1. Reduce state appropriation by 15 percent by June 30, 2019.
2. Submit a corrective action report by January 1, 2018
 - a) Identifying completed cost reductions;
 - b) Implement business processes and efficiencies to meet core public health services; and
 - c) Make recommendations for improved financial controls at OSDH.

Following are the actions taken, to be taken or under consideration to meet these obligations, but more importantly, restore the credibility of OSDH and its ability to provide public health services for years to come.

Organizational Approach

The Oklahoma State Department of Health (OSDH), through its system of local health services delivery, is ultimately responsible for protecting and improving the public's health status through strategies that focus on preventing disease. The organization provides technical support and guidance to 68 county health departments as well as guidance and consultation to the two independent city-county health departments in Oklahoma City and Tulsa. The following concepts have guided the organization over the years, and remain relevant today.

Vision Creating a State of Health

Mission To protect and promote health, to prevent disease and injury, and to cultivate conditions by which Oklahomans can be healthy.

Values Leadership - To provide vision and purpose in public health through knowledge, inspiration and dedication and serve as the leading authority on prevention, preparedness and health policy.

Integrity - To steadfastly fulfill our obligations, maintain public trust, and exemplify excellence and ethical conduct in our work, services, processes, and operations.

Community - To respect the importance, diversity, and contribution of individuals and community partners.

Service - To demonstrate a commitment to public health through compassionate actions and stewardship of time, resources, and talents.

Accountability - To competently improve the public's health on the basis of sound scientific evidence and responsible research.

While each of the abovementioned concepts remain relevant, the critical situation the organization finds itself in today indicates disconnect especially in the areas of integrity, service and accountability. Today's organization recognizes the need to focus efforts in all value areas, with considerable attention given to exemplifying excellence and demonstrating competence in all work aspects, properly stewarding resources, improving transparency and accountability, and rebuilding public trust. Additionally, the organization realizes sound business and administrative practices as a key concept must be included moving forward.

The OSDH is well on its way to chart a new course to become a reimagined organization, focused on improving the public's health and sound business practices. Organizational leadership has placed newfound emphasis on equalizing existing public health leadership team roles within a team structure that provides clarity, separation, and support between public health and business expertise. This type of organizational structure aims to retain institutional knowledge and expertise of longstanding public health roles while creating opportunity for business-oriented roles to be elevated, ensuring public health functions are executed with an appropriate level of adequate business support. The organizational structure moving forward would reflect several overarching principles for future success of the OSDH including:

- ◆ A well run public health organization will maintain sound business and administrative practices.

- ◆ Succession planning and opportunity for advancement preserves talent.
- ◆ The leadership team contains representation for all functional areas of the agency – all areas have a ‘voice’.
- ◆ Position titles used across the leadership team should be consistent in terminology, status level, and provide a broader chain of authority, as a way to promote a unified voice for all agency departments.
- ◆ Most successful organizational structures include no more than 5 or 6 direct reports at any level of the organization.
- ◆ Once finalized and upon periodic updates, the entire organizational chart should be made publicly available.

The organizational changes being explored are a serious matter. As a result of this crisis, not only has the organization identified multiple areas of improvement, actions are immediately necessary to stem and begin correcting the effects of adverse events. During this time of rapid change and uncertainty many staff are questioning – what will this organization look like in the future and where will my role be? It is imperative that planning and implementing such changes makes time available for consideration and vetting by the organization and Board of Health members. Ultimate organizational changes will be presented to the Board as a recommendation, and require their input and approval to execute. The communication of approved changes to staff will follow a plan and provide for their ability to seek clarification on areas of interest to them.

Governance

The national organization representing public health agencies (including the OSDH) is ASTHO (Association of State and Territorial Health Officials). Each state designates a State Health Official, who is recognized by the national organization. ASTHO’s membership includes each State Health Official, and represents over 100,000 public health professionals these state agencies employ.

ASTHO outlines the manner in which the OSDH, alongside other state health agencies, serves the public in three key areas. (ASTHO Profile of State Public Health, Volume Three, accessed 11/21/2017 at www.astho.org/profile)

- ◆ Prevent Diseases – State health agencies prevent diseases within their communities by performing screenings for diseases; providing population-based primary prevention services; and directly performing vaccine management for childhood and adult immunizations.
- ◆ Promote Health – State health agencies promote population health by directly providing many vital public health services within their communities including (but not limited to) treatment for diseases; maternal and child health services; and other clinical services.
- ◆ Protect Health – State health agencies work diligently to protect the public’s health by collecting and maintaining real-time data through laboratory activities; public health registries; disease investigation and surveillance activities; and environmental health activities.

As the OSDH reimagines the organizational structure for the future, core functional public health areas will be identified and aligned together with like departments. An assessment of each core functional area will determine whether the area aligns best with preventing disease, promoting health, or protecting health. For example, departments that primarily protect health such as injury prevention and medical facilities fall within the purview of the same leadership team position overseeing protective health. As a result of this alignment, improved efficiencies and a greater degree of cross-training and across-

departmental awareness are happening.

Historically in Oklahoma, when the Commissioner of Health was a physician, the Commissioner served as both Commissioner and State Health Official recognized by ASTHO. When a non-physician has been appointed Commissioner, the Commissioner has appointed a physician within the agency to assume the role of State Health Official. ASTHO does not prescribe credentials or experience required of the State Health Official position, these are determined at the state level (which varies from state to state). ASTHO recognizes whomever the state places in the nationally-recognized position of State Health Official.

There are a variety of governance structures utilized by state health agencies across the nation. According to the ASTHO Profile of State Public Health, Volume Three (accessed 11/21/2017 at www.astho.org/profile), across the nation in 2012, 76 percent of state health officials are appointed by the governor of the state. More than half of state health officials report directly to the governor, one-third report directly to the Secretary of Health and Human Services for their state. Similarly, 73 percent of state health official appointments require confirmation by the legislature, governor, board or commission, secretary of the Health and Human Services agency, or another entity. Nearly half (45 percent) of state health agencies report having a state board of health.

Oklahoma's Board of Health is created in state statute at 63 O.S. 1-103A, which states:

1. There is hereby created the State Board of Health, which shall consist of nine (9) members appointed by the Governor and confirmed by the Senate for regular terms of nine (9) years, except as hereinafter otherwise indicated.

The Board of Health has the following powers and duties according to 63 O.S. 1-104, which states:

- B. The Board shall have the following powers and duties:
 1. Appoint and fix the compensation of a State Commissioner of Health;
 2. Adopt such rules, and standards as it deems necessary to carry out any of the provisions of this Code;
 3. Accept and disburse grants, allotments, gifts, devises, bequests, funds, appropriations, and other property made or offered to it; and
 4. Establish such divisions, sections, bureaus, offices, and positions in the State Department of Health as it deems necessary to carry out the provisions of this Code.

Commissioner

Oklahoma state statute establishes the State Commissioner of Health according to 63 O.S. 1-106, State Commissioner of Health - Qualifications:

- A. The State Commissioner of Health shall serve at the pleasure of the State Board of Health, and shall have skill and experience in public health duties and sanitary sciences and shall meet at least one of the following qualifications:
 1. Possession of a Doctor of Medicine Degree and a license to practice medicine in this state;
 2. Possession of an Osteopathic Medicine degree and a license to practice medicine in this state;
 3. Possession of a Doctoral degree in Public Health or Public Health Administration.
 4. Possession of a Master of Science Degree and a Minimum of Five (5) years of supervisory experience in the administration of health services.

The qualifications for Commissioner, as currently prescribed in statute, could have requirements broadened to also include business-related areas such as a Masters of Business Administration for example. This change would allow for the position of Commissioner to bring forth a leadership perspective offering greater awareness of sound business and administrative practices. With the addition of business-related qualification areas, a greater degree of flexibility is obtained by the state – allowing for potential Commissioner candidates to present either or both health or business qualifications. In a reimagined organizational structure and in the event a Commissioner presented with business qualifications only, the clinical health credentials and qualifications would be possessed by the Chief Medical Officer (described below), completing the full cadre of agency leadership to be proficient on both sound business and accounting practices as well as strategies to improve the public's health. In order to enact this change, a recommendation to the Board of Health is needed, and implementation would be contingent upon approval by the Board, as well as successful statute revision by elected officials.

The Oklahoma statute continues in section (B) to establish the following powers and duties of the State Commissioner of Health according to 63 O.S. 1-106:

- B. The Commissioner shall have the following powers and duties, unless otherwise directed by the State Board of Health:
 1. Have general supervision of the health of the citizens of the state; make investigations, inquiries and studies concerning the causes of disease, and especially of epidemics, and the causes of mortality, and the effects of localities, employment, conditions and circumstances on the public health; investigate conditions as to health, sanitation and safety of schools, prisons, public institutions, mines, public conveyances, camps, places of group abode, and all buildings and places of public resort, and recommend, prescribe and enforce such measures of health, sanitation and safety for them as the Commissioner deems advisable; take such measures as deemed necessary by the Commissioner to control or suppress, or to prevent the occurrence or spread of, any communicable, contagious or infectious disease, and provide for the segregation and isolation of persons having or suspected of having any such disease; designate places of quarantine or isolation; advise state and local governments on matters pertaining to health, sanitation and safety; and abate any nuisance affecting injuriously the health of the public or any community.
 2. Be the executive officer and supervise the activities of the State Department of Health, and act for the Department in all matters except as may be otherwise provided in this Code; administer oaths at any hearing or investigation conducted pursuant to this Code; and enforce rules and standards adopted by the State Board of Health. All rules adopted by the State Board of Health are subject to the terms and conditions of the Administrative Procedures Act.
 3. Appoint an Assistant State Commissioner of Health and fix his qualifications, duties and compensation of the Assistant State Commissioner of Health; and employ, appoint and contract with, and fix the qualifications, duties and compensation of, such other assistants, doctors, engineers, attorneys, sanitarians, nurses, laboratory personnel, administrative, clerical and technical help, investigators, aides and other personnel and help, either on a full-time, part-time, fee or contractual basis, as shall be deemed by the Commissioner necessary, expedient, convenient or appropriate to the performance or carrying out of any of the purposes, objectives or provisions of this Code, or to assist the Commissioner in the performance of his official duties and functions.

Section (B) continues later in the statute to include powers and duties of the Commissioner to also include:

12. Be the official agency of the State of Oklahoma in all matters relating to public health which require or authorize cooperation of the State of Oklahoma with the federal government or any agency thereof; coordinate the activities of the State Department of Health with those of the federal government or any department or agency thereof, and with other states, on matters pertaining to public health, and enter into agreements for such purpose, and may accept, use, disburse and administer, for the office of the Commissioner or for the State Department of Health, for any purpose designated and on the terms and conditions thereof, grants of money, personnel and property from the federal government or any department or agency thereof, or from any state or state agency, or from any other source, to promote and carry on in this state any program relating to the public health or the control of disease, and enter into agreements for such purposes.

The powers and duties delineated in section (B) (2) and (3) appear to align with those especially appropriate for a Commissioner who possesses business-related qualifications. Separately, the powers and duties in section (B) (1) and (12) appear to align with Commissioner qualifications that are health-related. One potential benefit to the state of this role clarification is to elevate sound business and administrative practices as a key concept for the leadership of the organization moving forward.

Chief Medical Officer

One valuable addition to the current leadership of the OSDH would be that of a Chief Medical Officer (CMO). Although historically the Commissioner has had the statutory qualification requirement to be a medical professional, formalizing this role within a CMO position would provide a pathway for OSDH to become a reimagined organization, focused on improving the public's health and sound business practices. The establishment of a formalized CMO on the leadership team elevates the importance of health expertise in the agency, envisioning the CMO operating in a peer role to the Commissioner. The CMO position has great potential for contributing to improving the health of Oklahomans if included as an essential member of the OSDH leadership team. Consistent, physician involvement at this level would result in more effective work with partner agencies and health professionals in advocating for public health initiatives. Having a CMO as a consistent presence (while different people fill the Commissioner role as various appointments are made), enables continued focus on maintaining essential public health duties.

Currently there is no state statute prescribing the qualifications, powers or duties of a Chief Medical Officer. The Board of Health could recommend and authorize such an approach. The CMO position would be expected to have clinical credentials, at minimum the same as currently exist in statute for the position of Commissioner. In order to enact such a change, and as is the case for potential additions to the Commissioner qualifications, implementation would be contingent upon approval by the Board, as well as successful statute revision by elected officials.

From the national perspective, the State Health Official (as recognized by ASTHO) for the Oklahoma State Department of Health is a Commissioner appointed position. Under a reimagined organizational structure the Commissioner would have the flexibility to either serve in the State Health Official role themselves, or to designate the Chief Medical Officer for this role. Either way, the CMO is available as a resource to the OSDH to provide consultation and assistance to programs across the organization on public health topics and medical needs.

Leadership

Part of correcting the poor management previously experienced at OSDH requires restructuring the leadership layer to better reflect the new direction of the agency. The Interim Commissioner will be recommending to the Board of Health some changes in the leadership structure to better accommodate administrative functions:

- ◆ Adding a Chief Medical Officer (CMO) role at the Senior Leadership level. This role will focus entirely on the public health functions of the agency, providing subject matter support to the Commissioner's public health responsibilities and allowing him or her more time to strategically manage the business functions of the organization.
- ◆ Moving the Chief Financial Officer (CFO) from a direct report to the Chief Operating Officer (COO) to a direct report to the Commissioner. This ensures the CFO has the appropriate access to the Commissioner and clarifies his authority within the agency.
- ◆ Adding a Controller role as a direct report to the CFO. The Controller function manages the day-to-day operations of the financial management function freeing the CFO to focus on strategic direction of the agency and implementing the vision of the Board of Health and Senior Leadership as it pertains to finance.

Joint Commission on Public Health

On November 7, 2017, Governor Fallin established the Joint Commission on Public Health (Executive Order 2017-36). The Governor charged the Joint Commission to develop a plan of excellence for Public Health in the State of Oklahoma and provide guidance to the proposed FY2019 budget for the Oklahoma State Department of Health (OSDH).

The Governor named Gary Cox, Executive Director of Oklahoma City-County Health Department (OCCHD), as chair of the Commission. Additional members of the Joint Commission are appointed by Preston Doerflinger, Interim Commissioner of the OSDH from stakeholders representing OCCHD, Tulsa County Health Department (THD), OSDH staff, public health advocates and agency partners. In addition, the Joint Commission will assemble a group of legislative, legal, data, budget and program advisors to assist them in completing their tasks. The Joint Commission will hold its initial organizational meeting on January 5, 2018.

The development of a plan of excellence will require the Joint Commission to look at the current public health infrastructure in Oklahoma and identify strengths and weaknesses that exist between our hybrid model of a centralized state department of health and two independent county health departments located in our two largest metropolitan areas. The Commission should also look at the use of all resources available for public health and whether or not they efficiently support programs and services across the state. The available monies that support our mission is limited, and the work of the Joint Commission must be focused on improving health outcomes, protecting our citizens and delivering important services to the citizens of Oklahoma.

Completed Cost Reductions

Along with the statewide budget issues, it became increasingly clear in SFY 2018 that there was a financial crisis looming for the agency. More urgent steps were taken to reduce costs and preserve cash in order to meet specific obligations of the agency, including making payroll.

The financial crisis experienced by OSDH was caused by then agency leadership expanding functions beyond the core public health services federal and state statutes require and had built up over several years. Agency leadership also failed to right size the organization when budget cuts were made. In fact, payroll costs continued to climb while budget cuts were made.

As mentioned in the introduction, OSDH has been charged to reduce state appropriations by 15 percent by June 2019. State appropriations in SFY 2018 were \$53,083,790 setting the amount to reduce at \$7,963,000. As you will see in the following table, the agency is making strides in reducing overall costs and will achieve the target mandated with the action steps being taken.

The following table lists cost saving measures undertaken by OSDH and the projected savings the agency expects to achieve from them. Following the table is a brief description each measure.

Table 1: Cost Saving Measures and Anticipated Results

| Cost Saving Measure | Projected Savings SFY 2018 | Projected Savings SFY 2019 |
|-------------------------------------|-------------------------------|-------------------------------|
| Furlough | \$1,235,916 | N/A |
| RIF - Unclassified* | \$1,281,252 | \$2,562,505 |
| RIF - Classified* | \$1,281,252 | \$7,550,147 |
| 999 Employees | \$92,400 | \$140,000 |
| Staff to County Millage | \$1,254,000 | N/A |
| GALT Contract | \$1,980,000 | \$3,000,000 |
| TSET Contract | \$3,000,000 | N/A |
| College of Public Health Contract | \$1,000,000 | N/A |
| OCAP Contracts Termination | \$928,000 | \$1,600,000 |
| FQHC Contracts Termination | \$1,102,000 | \$1,900,000 |
| Fleet Utilization | \$320,000 | \$640,000 |
| Shipping Program Products | \$60,000 | \$60,000 |
| Cell Phone / Hot Spot Consolidation | \$72,300 | \$96,400 |
| WC Premium Cost Reduction | \$266,197 | \$266,197 |
| Estimated Total Savings | <u>\$13,873,317</u> | <u>\$17,815,249</u> |

Furlough. A plan that was properly submitted began on the pay period ending October 29, 2017. It covered four agency bi-weekly payroll periods, included one furlough day per employee per period for employees earning in excess of \$35,000.00 annually, and ended with the December 23, 2017 payroll period.

Reduction In Force (RIF). A plan that was properly submitted on December 6, 2017, detailed the conditions necessitating the Reduction-in-Force, provided an implementation schedule pursuant to OAC 260:25-13-35, and will be completed on March 3, 2018. The plan included unclassified and classified employees.

999 Temporary Employees. Temporary, part-time employee positions that were reduced in areas where the agency could fulfil its operational requirements through consolidating efforts and utilizing human capital resources more efficiently.

Staff to County Millage. Properly assigning Regional Administrators to correct budgets internally so that their payroll cost can be reimbursed for the time which is expended in the county locations and appropriately covered by millage reimbursement.

Galt Contract. Galt contracts were initially managed within program areas. To gain efficiencies and better manage human capital, the contracts were centralized into one contract for the agency. Additionally, the contracts were analyzed for the utilization and need requirements of the temporary employee positions. These positions were reduced in areas where the agency could fulfil its operational requirements through consolidating efforts and utilizing human capital resources more efficiently.

TSET Contract. Anticipated costs for a program administered by TSET for OSDH were remitted upfront to TSET in 2011 and 2012 in the amount of \$8.5M. The program has terminated and approximately \$3M of the fronted costs have been returned to OSDH. OSDH continues to seek the balance of the remaining funds from TSET in the approximate amount of \$1.4M.

College of Public Health Contract. Anticipated costs for a program administered by Oklahoma University for OSDH were remitted upfront in 2014 in the amount of \$1.5M. The program has terminated and approximately \$1M of the fronted costs have been returned to OSDH.

Child Abuse Prevention Program. The Office of Child Abuse Prevention (OCAP) utilizes the strategy of home visiting to mitigate the risk of child maltreatment. OSDH contracted with nine vendors for home visiting services. These contracts were terminated in October 2017.

Federally Qualified Health Centers. Federally Qualified Health Centers (FQHCs), also known as community health centers, are safety net health centers that offer services to low-income individuals in medically underserved areas. OSDH contracted with eight of the FQHCs meeting specific criteria subsidize uncompensated care costs through the Uncompensated Care Fund (UCF) managed by OSDH. Unable to fund the UCF, these contracts were cancelled in November 2017.

Fleet Utilization. Policy has been developed and implemented requiring employees traveling within the state to utilize state fleet cars if available rather than using their personal cars and collecting mileage reimbursement.

Shipping Program Products. OSDH changed policy from shipping supplies to counties weekly to bi-weekly making allowances for special circumstances as needed. This does not apply to medication to pharmacies.

Cell Phones Management / Hot Spot Reductions. Cell phone and hot spot utilization was analyzed and tracked so that the overall phone plan could be reduced as to the actual cost of needed devices and spots. If a device and spot was unused or unnecessary then it was removed from the plan in order to reduce cost and gain efficiency.

Workers Compensation Premium Cost Reduction. By slightly adjusting our per claim deductible, the agency was able to reduce the annual policy premium by \$266,197 annually.

Business Processes and Efficiencies

Process improvement, by definition, can be simply stated as an approach designed to help organizations redesign their existing business operations to accomplish significant improvement in production. There are a variety of different approaches that can be utilized. Regardless if the improvements are aimed at business or public health functions – three common approaches emerge:

1. Define the existing processes and structure in the organization.
2. Identify the outcomes that would add value in achieving the organization's objectives and the best ways to align the organization's processes to achieve these outcomes.
3. Reorganize the work in the organization based on the desired outcomes.

The OSDH has identified a need for greater attention and focus on many of the internal processes supporting the organization's work. A recommendation for regular, systematic evaluation and modification of processes has been made. The goals of this effort are to (1) ensure accuracy; (2) periodically review, assess and make improvements to agency administrative and operational processes; (3) improve efficiencies; (4) gain feedback from multiple levels of staff on their thoughts regarding what is working well, and what is not, and how to improve. The OSDH will explore the creation of a unit (comprised of existing staff with Process Improvement education, training and/or skill sets) charged with creating a process improvement plan for the agency and identifying high priority areas to be immediately evaluated as a means to reduce risk to the agency. These projects are in addition to the projects mentioned in the previous section from which savings and efficiencies are already being realized.

Energy Efficiencies

The maintenance and updating of facilities, while expensive, often lead to long-term savings and cost avoidance. Energy efficiencies can be one of the most cost effective ways to reduce costs, provide a safe working environment and increase overall productivity.

Interim Commissioner Doerflinger requested an energy assessment of the OSDH Central Office from the Capital Asset Management team located within OMES. The team is currently working with OSDH Building Management to conduct a full facilities assessment including a review of lighting, mechanical, and control systems. The team will also inspect other infrastructure and identify additional, energy cost savings.

Management Staff Training

Many of the OSDH staff have vocalized a need for additional training. They were asked to provide the training topics most useful to their job roles. Staff indicated training was needed in a variety of areas - not only on agency processes and procedures, but enhanced focus on management and supervisory skills necessary for them to effectively lead their areas. Training needs were identified in the following areas: public health 101 (what are core/essential public health functions); understanding each area's role in the agency (how functions relate to mission/vision); grant management; budgeting; contract development and monitoring; emotional intelligence/self-awareness; conflict resolution; leading through difficult times; effective communication; program & personnel performance management processes; generational

perspectives of staff; and staff discipline.

A variety of state and external resources are available to the OSDH to assist employees with their training needs. Human Capital Management coordinates the availability of training classes, offered through contract support via statewide training opportunities. The Oklahoma Management and Enterprise Services (OMES) agency has created a “Manager/Supervisor 101” suite of training resources. The Public Health Foundation (PHF) has been a resource the OSDH has utilized to identify Core Competencies for Public Health Professionals, a set of foundational skills desirable for professionals engaging in the practice, education, and research of public health. The OSDH has training staff tasked with the development and offering of training on a range of topics. The agency plans to evaluate current curriculums provided by OSDH training staff, and develop a plan to offer trainings to staff in the abovementioned areas over the next 12 months. The agency plans to work with these and other identified resources to determine how and when this training may be made available to OSDH staff. Additionally, the OSDH training staff will implement a plan to periodically assess and respond to staff training needs.

Open Records Process

As a result of the heightened interest in the agency, and identification of the need to improve the agency's management of the open records requests, a formalized process has been created to log and track all requests received by the agency. Actions taken to fulfil each request are documented and dated. The agency continues to work to refine the processes to improve the turnaround time on such requests.

OSDH Finance

A qualified and ethical CFO is critical to managing OSDH's complex financial system. The CFO must ensure the agency has established appropriate systems for budget analysis and planning, accounting and financial controls, as well as sufficient expenditure controls which include encumbering and expending agency funds. Accounting policies must be formulated and executed in accordance with applicable state statutes, regulations and best practices in government financial management. Implementation of strong internal controls and timely, accurate and transparent financial reporting are critical.

Since April 2017, OSDH has had a qualified CFO in place. Mike Romero is that qualified CFO. Following is a description of the financial practices and condition in which he found OSDH and the steps he took to repair the situation.

Historical Accounting Practices

Upon the CFO's arrival at OSDH in April of 2017, he was able to quickly identify several areas of concern within the unusual business and financial practices implemented across the agency.

The culture perpetuated by top level management was plaguing OSDH's Finance Division. This was a culture of delivering any program regardless of the cost, risk, scope or load requirements. It was apparent fiscal accountability was not a subject the top agency leadership promoted as a program concept. This was OSDH's normal business working environment.

The administration's views of financial accountability was further evidenced after the CFO spent several weeks meeting staff from across the agency, yet top agency leadership did not request any one-on-one meetings with the CFO to discuss OSDH's financial position. Prior to the current CFO, OSDH had not had a CFO for over a year, therefore, it would seem appropriate to have meetings with the Commissioner and his direct reports to discuss the agency's financial situation and identify financial risk areas.

In order to gain clarity and perspective on the OSDH's prior and current financial position, the CFO used a set of standardized industry questions common to initiating a financial inquiry, or obtaining an introductory financial landscape. Those inquiries began directly with financial staff and answers were obtained within the first ninety days. The questions and answers are as follows.

Q1: Where are the agency's most recent financial statements for my review and analysis?

A1: There were no current financial statements.

Q2: Where are the agency's prior financial statements?

A2: There were no prior period financial statements.

Q3: Since the previous CFO, who has been responsible for the direction of agency financial matters?

A3: Without the CFO and even with prior CFOs, the agency's fiscal policy had been directed by a Senior Deputy Commissioner with a Master's Degree in Public Health and her assistant, the Business Planning Director with no formal higher education.

Q4: What is the agency's monthly closing procedure and how long does it take?

A4: There was no monthly closing procedure.

Q5: Are there any prior periods that are not closed or remain open for any reason?

A5: There were several prior open financial periods internally.

Q6: What was the last accounting period that was closed for the agency?

A6: There were open financial periods that went back several years (greater than five).

Q7: If any periods are not closed, why are they open (are there reasons for keeping them open)?

A7: The periods were open because payroll was not posted internally, and cash was being managed internally to cover various over-expenditures.

Q8: Are all of the historical financial transactions booked?

A8: All historical financial transactions were not booked/posted.

Q9: Are all expenditures and their postings governed by written procedures?

A9: There were some expenditures and postings that were governed by written procedures.

Q10: Is there adequate separation of duties? Can senior management personnel override finance and budgetary controls?

A10: Top Executive Management was not subject to normal separation of duties controls as even after hiring a CFO, the Senior Deputy Commissioner and her assistant, Director of Business Planning, could and did override any control, directed budget staff for constant financial changes and adjustments and also directly controlled other financial staff.

Q11: Are there any areas that are chronically underperforming or overextended?

A11: For areas that were chronically overextended, the agency leadership did not address remedial actions that could have been used to alleviate these issues. Actions that might have been utilized included analyzing the service delivery in comparison to the core public health mission and the demand for services, etc. and prioritize the limited supply of resources. Instead agency leadership acted as though the resources were limitless; underperforming or overextended areas were not addressed as long as the agency was operating within the areas of Top Executive Management leadership's direction.

Q12: Are there financial resources (or have resources been identified) which are part of a strategic platform that accommodate a three-year operational plan?

A12: A three-year operational plan was never put into place internally as the agency was struggling to manage current costs as well as being plagued by unposted prior year costs which continued to hamper current year operations.

Q13: Is there one integrated system for financial information and operating metrics (i.e. where do reports come from, who has access, what functionalities)?

A13: There are multiple systems because the agency is limited by the fact that it operates on a 1970s era financial reporting system. Metrics cannot be pulled from the system. The only way to obtain the information is through pulling very large reports which must be re-worked and re-fitted in order to perform analysis.

Q14: What would you like the enterprise to stop doing that may be causing financial reporting and analy-

sis issues?

A14: Financial employees across the organization desired financial leadership and discipline. It was apparent that chronic overspending and lack of concern over budgetary and financial discipline was putting the agency in peril but they had been blocked from disclosing and/or addressing the relevant issues for corrective remediation.

It was apparent by the answers provided, the agency was in serious need of financial attention, repair, and reform. The CFO began to notify agency leadership of issues, as well as providing potential solutions. Meetings were held; the CFO notified Top Executive Management, as well as program directors of the dire financial position of the agency.

In June 2017, the CFO and the Chief Operations Officer met with the Commissioner and the Senior Deputy Commissioner about the improper use of funds to front agency payroll costs. The Commissioner and Senior Deputy Commissioner responded to this accusation through a FEMA Incident Command platform. This command structure is typically utilized for public health emergencies and natural disasters. It appeared this was an avenue to stifle communications and actions of the CFO. It became apparent Top Executive Management had no intention of taking the appropriate actions to address OSDH's financial risk. They minimized the agency's financial issues and told the CFO they would handle these financial difficulties in the same manner as past financial issues.

The CFO continued to initiate discussions with agency leadership as to the gravity of the financial situation. At or near the end of June 2017, the Commissioner and Senior Deputy Commissioner submitted a budget work program to the Office of Management and Enterprise Services (OMES). The budget work program was not in balance with state appropriations and the budgeted positions, however, it was submitted despite the legal insufficiency.

Despite the CFO still being new to the agency, he believed there must be some way to notify other state officials to the seriousness of the financial situation at OSDH. At this juncture, the CFO attended numerous in person meetings and sent emails regarding the dire financial situation yet nothing had changed.

SAS 99 Fraud Assessment

OSDH receives an annual audit by the State Auditor and Inspector's Office (SAI). In early May of 2017, SAI met with the CFO to conduct the preliminary fraud interview as part of the normal commencement of the annual SAS 99 audit (Statement of Auditing Standards No. 99). The interview is routinely conducted at the beginning of an audit to obtain general information about whether or not relevant employees are aware of the existence of fraud within an entity. At the time of this meeting, the CFO had been with OSDH sixty days or less. The CFO's responses to the questions were qualified with the clear caveat. The caveat was, if any information was later gained by the CFO, he would supplement the response provided.

The CFO was aware SAS 99 required an interview as part a process of the process to commence the audit. The CFO was also aware the SAS 99 required auditors to look for fraud throughout the entire audit process. These requirements are common components of financial audits and are recognized by the Generally Accepted Auditing Standards (GAAS). The SAS 99 not only required auditors to be reasonably sure the financial reports are free of material misstatements, whether caused by error or fraud, but it also provided them focused and clarified guidance to meet their responsibilities to uncover fraud. SAS 99 describes the following three conditions which are usually present when fraud has been or is being committed: (1) management or other employees have an incentive or are under pressure which provides a reason to commit the fraud; (2) opportunities or circumstances exist that provide for an opportunity to com-

mit fraud (e.g. absent or ineffective controls, ability of management to override controls); and (3) those involved are able to rationalize committing a fraudulent act (e.g. we have to provide this program). SAS 99 is long and clear in its application of these relevant concepts, as well as the steps to follow and the audit framework the auditors are to pursue.

A direct relationship exists between these three conditions and the possibility of fraud occurring. However, SAS 99 is also clear that all three conditions do not necessarily need to be present in order for fraud to occur. The SAS 99 guidance emphasizes the importance of maintaining “professional skepticism” throughout an audit and maintaining a critical assessment of management’s responses to questions and the evidence obtained in the audit.

SAS 99 Supplemental Fraud Assessment Response

The three conditions usually present when fraud has occurred, or is being committed, existed at OSDH and the actions taken by OSDH leadership fit into the three-pronged conditional framework.

Once the CFO realized the existence of the three-pronged conditional framework, he was obligated as CFO and a CPA to supplement the information he provided in his initial responses to the fraud risk assessment questions.

The process to provide the supplemental information was handled openly, ensuring the CFO’s chain of command, the COO, was aware of and participated in communicating with Top Executive Management about the CFO’s obligation. In an effort to promote transparency and avoid a “whistleblower” situation, the CFO met with the Senior Deputy Commissioner, the OSDH Internal Auditor, the OSDH General Counsel and the OSDH COO. In the aforementioned meeting, the CFO articulated his intent and obligation to meet with the SAI auditors to supplement his fraud risk assessment responses. The CFO and the COO, met with SAI auditor in charge of the OSDH annual audit on August 1, 2017.

A written supplemental statement with supporting documentation was provided by the CFO to the auditor. The CFO’s supplemental statement, which may be acquired from the SAI’s Office, included twenty-seven items.

During the supplemental statement meeting with the SAI, the CFO told the SAI staff he was new to state government and wished to utilize the appropriate professional channels to disseminate this information. He warned those in attendance about the financial situation at OSDH. The CFO explained that OSDH’s financial situation represented a serious risk to the State of Oklahoma’s fiscal system. Additionally, the CFO and COO stressed that the problems needed to be forwarded to other important state personnel.

The meeting with the SAI was long and covered a large amount of supporting documentation. The supporting documentation presented by the CFO was accompanied by the CFO’s step-by-step verbal narrative of the agency’s financial problems. The CFO described problems that included millions of dollars in internally unposted payroll costs. During the meeting the CFO presented information, which indicated OSDH’s Top Executive Management made repeated attempts to prevent this information from being provided to any outside authority. Those attempts even included the CFO’s obligation to provide the SAS 99 supplemental.

As a CPA and also a duly licensed attorney-at-law, the CFO was aware of his rights and protections to blow the whistle, pursuant to the Oklahoma Whistleblower Act at Title 74 §840-2.5. Doing so would have allowed the CFO to disclose the information about OSDH’s violations of the state constitution (unauthorized debt by the agency), violations of law, abuses of authority and dangers to public health or safety. According to the statute, this information could have been presented to various state officials,

state authorities, and the media. This path of disclosure was discussed at the State Auditor's Office, however, path of the SAS 99 supplementation by the CFO to protect the agencies involved, the public's trust in the state government and the public's trust in the delivery of important public health services. This path was chosen to give the SAI the opportunity and platform to lead the charge of fiscal responsibility and make an immediate impact at higher levels of authority pursuant to established audit standards and requirements.

Therefore, the OSDH CFO did not provide the information to the State Auditor & Inspector's Office as a "whistleblower" but worked through the best available channel for addressing a serious matter in the best interest of Oklahoma State Government.

The SAS 99 provides guidance on actions to be taken if the auditor suspect fraud. It indicates when the highest level of management is suspected of fraud, the auditor should communicate with the next level of governance outside of the entity. (**AU-C §§240.39 - .41**)

Next Actions Taken

After the meeting with the SAI's Office, the CFO continued to work around and through various obstacles within OSDH to effect meaningful changes which would serve to protect the financial interests of the agency and the State of Oklahoma.

An internal daily cash reporting procedure was implemented by Finance, which formed the basis of an internal cash monitoring platform. This daily cash monitoring platform is an internal agency report specifically designed to identify and protect restricted federal funds both internally and in the OMES financial CORE System. OSDH now has a daily tool to control and monitor the bi-weekly payroll load through unrestricted agency funds only. With this tool, OSDH is able to specifically identify and protect restricted funds from breach, thus unifying OSDH's daily financial records with OMES's daily cash records. Additionally, the Interim Commissioner of OSDH is supporting OSDH personnel as they formulate an official OSDH policy for daily cash reporting.

OSDH has also taken steps to notify the, Health Resources Services Administration (HRSA), an agency in the United States Department of Health and Human Services, of significant issues. OSDH has provided an explanation related to the OSDH's finances and the breach of restricted federal funds. OSDH continues to make efforts to disclose issues and are working to ensure the immediate problem of the breached funds is appropriately addressed. OSDH will ensure supplemental insurance billing is paid and HRSA will have access to OSDH's information and responses. Providing HRSA OSDH's information satisfies HRSA's investigational measures and preserves the relationship with HRSA.

Finally, OSDH's budget area has worked to properly apply and categorize all of the over-budgeted positions to their requisite service areas. This enables OSDH to maintain an accurate analysis of the month-over-month expenditure position. This process will identify key areas with payroll over-expenditure. This process differs from the past practice of failing to disclose those program areas. Additionally, all budgetary movements now require approval from the CFO and from the agency's Budget Officer. These actions were taken by OSDH to begin protecting the integrity of financial reporting for positional budgeting. These additional protections take place within the framework of original budgets to safeguard overall financial reporting reliability for OSDH and its particular program areas.

Interim Commissioner Administration

During the first week of administration under the Interim Commissioner Doerflinger began a series of visits with the CFO and other agency leadership members to gain a perspective and understanding of

OSDH's financial landscape.

These initial meetings were followed by additional regularly scheduled meetings with the Interim Commissioner. During these regularly scheduled meetings the Interim Commissioner is working with senior leadership to gain background on the agency's financial position, past activity, remedial steps taken to date and development of measures going forward . The CFO now has the ability to be autonomous in providing a professional opinion on the financial reporting platform and to provide prospective corrective measures for OSDH's financial reporting.

From these initial meetings, several steps were taken to emphasize the importance of financial practices across OSDH. These measures include the CFO participating in senior leadership meetings, the CFO can now provide uncensored and standardized financial reports to the Board of Health and the CFO now has the full disclosure, granting and authority to control the budget process and subsequent reporting.

Improving Financial Controls

During the last two years, OSDH has struggled to attract and retain a qualified Chief Financial Officer. This has contributed to an environment that lacks continuity and transparency, left management with a crippling lack of financial information, allowed the continuation of ineffective or absent internal controls and insufficient cash management that ultimately left the organization vulnerable to mismanagement of funds and insufficient cash management practices.

Mike Romero, CFO, has outlined a solid approach to bring OSDH into alignment with current standards and, consequently, an accountable and transparent financial structure.

OSDH plans to address the inadequate financial operations of the agency by implementing a strong financial platform as depicted in the visual below. By using external standards, frameworks and best practices widely accepted and proven effective, OSDH will develop financial processes and procedures in such a way as to make its financial position reportable, funding needs apparent and reveal financial management practices timely.



OSDH Financial Reporting

OSDH is publicly accountable for the resources it has been given either through appropriations, grants or fees. Predictable reporting of accurate and timely financial information is essential for stakeholders to hold the agency accountable. Financial statements provide vital information to the public, Legislature, Governor, investors and creditors and agency management about the agency's health. They offer necessary information to make informed management decisions and give interested parties a look into financial operations.

According to Governmental Accounting Standards Board (GASB) 34, "Fiscal accountability is the responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public moneys in the short term (usually one budgetary cycle or one year)." (203)

OSDH's Financial Reporting will now conform to the standards of the GASB. GASB establishes accounting and financial reporting standards for federal, state and local government in alignment with Generally Accepted Accounting Principles (GAAP).

The agency will report monthly operational results including a Statement of Activities and a Statement of Net Assets, similar to the income statement and balance sheet, respectively, in the private sector. The Statement of Net Assets will identify the extent to which functions of OSDH utilize general appropriations or is self-financing through fees and grants.

Internal controls for financial reporting will be developed and implemented to ensure timely and accurate information is produced.

Below are a few of the Standards promulgated by GASB that speak specifically to concerns raised by the financial crisis at OSDH.

GASB Statement No. 34

Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments

GASB 34 will be the foundation for the OSDH financial reporting platform. As such, OSDH financial reporting in accordance with GASB 34 will be useful to users to assess accountability thus fulfilling its duty to be publicly accountable. The Introduction to GASB 34 says, “Financial reports are used primarily to compare actual financial results with the legally adopted budget; to assess financial condition and results of operations; to assist in determining compliance with finance-related laws, rules, and regulations; and to assist in evaluating efficiency and effectiveness.”

OSDH's financial reporting will provide information to assess:

- ◆ Sources, uses and balances of current financial resources (238)
- ◆ Whether resources were obtained and used in accordance with OSDH's legally adopted budget; (238)
- ◆ Whether the agency is in compliance with other finance-related legal or contractual requirements (i.e. Code of Federal Regulations, Oklahoma State Statutes, Oklahoma Statewide Accounting Manual, grants requirements, etc.) (238)
- ◆ How OSDH financed its activities and met its cash requirements (238)
- ◆ Legal or contractual restrictions on resources and risks of potential loss of resources (238)
- ◆ Whether current-year revenues were sufficient to pay for current year services (interperiod equity); (344.a)
- ◆ Whether the financial position of the agency has improved or deteriorated as a result of the year's operations [*Management's Discussion and Analysis (MD&A - 11.c)*]
- ◆ Financial condition, service efforts and accomplishments of OSDH; (188)
- ◆ OSDH's ability to maintain services and continue to meet its obligations as they become due (296)

Pertinent excerpts from other GASB interpretations and statements also address concerns raised by the situation.

Interpretation No. 6 of the Governmental Accounting Standards Board, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements

Interpretation No. 6 speaks to the purpose of financial statements of governmental activities. “A primary

objective of governmental activities is to provide services demanded and authorized by the citizenry within the constraints of available (current, spendable) financial resources." Financial statements will indicate whether authorized plans were achieved and whether resources were obtained and used in amounts and for purposes intended. This information along with fund balance information are important to decision makers who are responsible for allocating resources. This completes the budgetary cycle.

GASB Statement No. 54

Fund Balance Reporting and Governmental Fund Type Definitions

GASB Statement No. 54 dictates that classification of fund balances will be accounted for and restricted balances will be clearly identified and reported.

GASB Statement No. 56

Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards

GASB Statement No. 56 will ensure that negative trends will be reported and any items not tracking to budgetary plans can be easily and quickly identified and corrected.

Project Planned, Agency-Wide Financial Closing for the OSDH

OSDH is a large agency with multiple program areas, funding streams, revolving fund areas and federal grant areas, notwithstanding the positional budget and contract areas that are tied to state appropriations funding. Currently, the agency operates on a mainframe financial reporting system. This system does not operate like a common double entry bookkeeping system.

In a common, enterprise resource planning system, upon closing, the financial system typically makes various automated entries and closes certain areas of the General Ledger making them inaccessible to users. This type of system requires diligent management by financial personnel of various duty levels. Such a system requires highly organized and timely processes. It also provides automated internal controls that preserve the integrity of the data and financial information.

The agency will ultimately require a financial reporting system that can maintain all program areas on an enterprise-wide basis. Because the system at OSDH is not capable of this, it is necessary to develop a project management based, monthly closing platform. Through this process, accurate financial reporting in the near-term is possible and will improve transition to a new system when changeover occurs.

At this time the agency has underway, the initiation and development of a project-based monthly closing system which will incorporate and include all functional reporting areas. This system will assign responsibilities on a four-week, twenty business day cycle for the closing of financial activities related to the agency's financial reporting.

The monthly financial closing platform will also assist in identifying areas of weakness within the agency's internal control structure. It will also contribute to the identification and creation of operational synergies across all of the program areas. It will allow for an overall and recurring agency assessment of performance and the monitoring of ongoing issues so they can be addressed on a regular basis.

This project-managed, monthly closing platform will provide a sound and responsible business basis for establishment of quality financial reporting measures at OSDH.

Institute, require and manage a regular monthly closing process

1. Establish all monthly close requirements by reporting area.

2. Develop a monthly closing project management matrix for an efficient, timely close. The current financial system for the OSDH does not support an automated monthly close so the matrix for an efficient, agency-wide closing will support the internal control platform in a manner that the current financial system is incapable of due to its age and limitations.
3. Dates for various milestones in the close will facilitate operational flow process.
4. Milestones throughout the month are managed as to:
 - a) Function / problem issues and areas;
 - b) Personnel assignments;
 - c) Process flow of duties;
 - d) Automation;
 - e) Separation of duties;
 - f) Legal requirements;
 - g) Federal grant requirements;
 - h) Revenue collection; and
 - i) Processing of all costs.
5. The Controller, driving the execution of financial reporting duties, will:
 - a) Coordinate the monthly close activities;
 - b) Verify the integrity of all closing activities;
 - c) Continuously improve and augment the close activities and report to CFO;
 - d) Be responsible for managing reporting issues during the close;
 - e) Interface with the CFO with respect to each reporting issue;
 - f) Prepare the financial statements through an automated query platform; and
 - g) Review all financial reports on a preliminary basis with the CFO before close.
6. Closing will show the actual dollars related to activities for the period.
7. Closing will show net financial position of the agency after reporting the activities for that period.
8. Reporting for agency program areas will include an interface as to operational position by monthly period.
9. Reporting to the Board of Health will be on a consolidated basis with detail included for further review as requested.

Internal Controls

When accounting for and reporting on fiscal accountability, management must consider how to ensure policy and procedures safeguarding financial information are managed appropriately. An internal control system is critical and should provide the assurance that organizational objectives are being met.

The internal control system is policy, procedures and processes implemented to ensure that operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies reflect organizational objectives and are achieved or risks are mitigated to an acceptable level. Committee of Sponsoring Organizations' Framework is considered the leading guidance in this subject when designing, implementing and assessing internal controls.

Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO developed an internal control framework widely accepted and utilized across industries and around the world. OSDH

will adopt the COSO framework to protect the accuracy and reliability of financial reporting and assess and oversee the internal control system for operational effectiveness and compliance with laws and regulations.

As well as being a best practice, the federal government requires it of us.

2 CFR §200.303 Internal controls.

“The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

The following table presents the five components comprised of 17 principles that make up COSO’s framework for internal controls.

Table 2: COSO’s Internal Control Framework

| Components | Principles |
|-------------------------------|---|
| Control Environment | 1.Demonstrates commitment to integrity and ethical values Exercises oversight responsibility Establishes structure, authority, and responsibility Demonstrates commitment to competence Enforces accountability |
| Risk Assessment | 6.Specifies suitable objectives Identifies and analyzes risk Assesses fraud risk Identifies and analyzes significant change |
| Control Activities | 1.Selects and develops control activities Selects and develops general controls over technology Deploys through policies and procedures |
| Information and Communication | 13.Uses relevant information Communicates internally Communicates externally |
| Monitoring | 16.Conducts ongoing and/or separate evaluations Evaluates and communicates deficiencies |

Developing and Formalizing COSO’s Internal Control Framework.

Risk Assessment. OSDH will start the internal control development process by identifying the major risks to the achievement of our agency objectives. Those risks relate primarily to the (1) appropriate recording of transactions, estimates, or adjustments; (2) management override of controls and processing, and (3) errors or fraudulent transactions.

In addition to OSDH's risk assessment activities, the Commissioner has requested that the State Auditor and Inspector's office administer a risk assessment of the agency to determine targeted areas in which to conduct performance audits.

Control Environment. The control environment represents the "tone at the top" of the organization. The Association of Certified Fraud Examiners defines tone at the top as "the ethical atmosphere that is created in the workplace by the organization's leadership." (http://www.acfe.com/uploadedfiles/acfe_website/content/documents/tone-at-the-top-research.pdf). It is an important mechanism to mitigate risks. A strong, accessible Board of Health and an Internal Controls Committee will be a meaningful line of defense against management override. An ethical culture and a commitment to financial reporting competencies represent reasonable responses by OSDH to mitigate the risks of financial misstatement or fraud.

Control Activities. OSDH will implement policies and procedures to ensure that all transactions are accurately recorded. With these controls, it will be easier to make informed management decisions and to ensure that the organization properly bills all its services and collects all revenue.

Information and Communication. OSDH will enhance the flow of basic information to run the enterprise and to gain knowledge that its major information to run the enterprise and its major processes, including financial reporting, are working properly.

Monitoring. Once effective internal controls have been established, OSDH will develop processes to monitor the control system to determine that it continues to operate effectively. Monitoring can include such things as reports to management and the controls committee or even random testing. OSDH leadership will use monitoring as a basis for its continued assessment of internal controls once it has established effective internal control systems.

OSDH will take advantage of the scalability of the COSO framework to consider the unique needs and circumstances of OSDH. For risks already identified and those to be identified by the 2017 special audit, specific activities will be developed, implemented and utilized in a cost effective manner to achieve the control objectives related to financial reporting.

Because ineffective controls existed for financial reporting and contributed to the situation in which OSDH now finds itself, the following are some of the financial reporting controls to be implemented. (It should be noted that some of these, such as changes in leadership and reporting structure, will require approval by the Board of Health).

Controls will be implemented in order to sustain strong accounting practices and protect the financial reporting environment.

Specific internal controls that will be implemented

1. Controls over the internal reporting structure:
 - a) The agency CFO will report directly to the Commissioner of Health.
 - b) An agency Controller, reporting directly to the CFO, will be added to the financial department to manage day-to-day operations and be responsible for the execution of financial controls within the finance department.
 - c) Financial reporting, managed by the CFO and Controller, will be developed in alignment with GASB requirements. This impacts reporting related to budget and funding, grants, payments and reconciliations and revenue and receipting.
2. Controls over separation of duties:
 - a) Separation of duties controls will be evaluated regularly.

- b) Controls will be added or revised as necessary to ensure transparency.
- c) Reporting silos will be eliminated or mitigation controls implemented to ensure transparency and proper oversight.

3. Controls over the authority of financial employees:
 - a) Authority controls will be evaluated regularly.
 - b) Approval authorizations for reporting measures will be required to flow through the Controller's office and then to the CFO.
4. Controls over departmental ledgers will be reviewed and reconciled monthly and on a timely basis.
5. Controls ensuring that reconciling differences, negative balances, and/or unsupported transactions are investigated and corrected in a timely fashion (prior to monthly close).
6. Controls will be implemented to ensure financial reports compare original budgeted balances with actual financial activity and are reviewed by appropriate divisional management and Senior Leadership.
7. Controls will be implemented over anticipated fund or cost center deficits including notifications to appropriate levels of divisional management and Senior Leadership.
8. Controls will be improved regarding all rules and requirements associated with different fund types to ensure their appropriate management and execution. This includes grants, restricted revolving funds and any other restricted fund types.
9. Control levels will be increased over the review of the status of receivable balances in order to maintain expected revenue levels.
10. Control levels will be increased over the review of the status of payable balances.
11. Control levels will be increased over the payroll process. This includes the "payroll not posted" policy to protect against future posting failings.
12. Control levels will be increased to ensure payroll transfers are appropriate, approved and processed timely including appropriate justification and supporting documentation.
13. Control levels will be increased over the purchase requisition process, receiving and processing of invoices for payment and reconciliation of purchased items.
14. Control levels will be increased over contracts including ensuring financial staff are familiar with laws and procedures required.
15. Control levels will be increased over grants including ensuring financial staff are familiar with laws and procedures required.
16. Control levels will be increased over technical and progress reports involved with grant programs and/or contracts (monitoring, etc.)
17. Control levels will be increased over costs charged to grants to assure they are reasonable, allocable, consistently treated and meet restrictions.
18. Control levels will be increased to ensure expenditure transfers are appropriate, approved and processed timely and include appropriate justification and supporting documentation.

19. Control levels will be increased over information technology including:
 - a) Access to systems
 - b) Access to transactions
20. Control levels will be increased over security including:
 - a) Access to systems
 - b) Access to transactions
 - c) Access to assets
21. Control levels will be increased over other operational matters such as:
 - a) Financial training to ensure staff is familiar with established procedures.
 - b) Records kept in accordance with reporting guidelines.
 - c) Reconciliations performed separately from the initiation and finalization of transactions.
22. Control levels will be increased over compliance with regulations and laws related to each reporting area.
23. Control levels will be increased over review of significant accounting and reporting issues.
24. Control levels will be increased over review of recent professional and regulatory pronouncements for potential impact on financial statements and reporting.
25. Control levels will be increased over the proper review platform for management responses to reporting concerns.

Internal Control Committee

Just as the financial reporting system needs internal controls to ensure the integrity of the system platform, so also the internal control system requires the appropriate foundation. To provide this additional layer of assurance, a committee will be instituted of internal staff across the public health landscape in order to develop and serve as an evaluation structure for the agency's internal control system. The members of the committee will represent a wide range of subject areas within OSDH so that the level of input obtained can be both objective and effectively broad.

The internal control committee will function much as an audit committee in corporate and other non-profit settings except its focus will be limited to the oversight of the internal control system related to financial reporting and its effectiveness. The committee will perform the following various functions:

- ◆ Provide input regarding internal control platforms and internal control systems;
- ◆ Provide input regarding the manner in which control systems are developed and implemented;
- ◆ Review significant accounting controls to develop further operational efficiencies;
- ◆ Evaluate agency risk areas such as legal and compliance risk, fraud, grants, etc.
- ◆ Evaluate systems and processes which affect the internal control platform;
- ◆ Provide an open and fully disclosed concept forum for improved controls;
- ◆ Provide an effective scope of oversight so that internal control activity is not walled off from functional areas;

- ◆ Provide a mechanism for operational concerns and synergies to be addressed responsibly and in the open;
- ◆ Provide an opportunity for operational controls to be developed through a logical operational flow and not solely as ineffective rule mandates; and
- ◆ Provide the necessary input to be able to scale the internal control platform to meet OSDH needs yet remain cost effective.

Agency Budget

The OSDH budget will now be developed through the implementation of a formal budget call. The budget call process will be distributed electronically (i.e. a communication sent to initiate the budget process with specific guidelines). This process will include historical account activity for reference purposes and will provide the necessary information for the preparation of the budget request. However, the new OSDH budgets will be developed through zero-based budgeting requirements.

These zero-based requirements will call for all projected expenses to be justified for each new operating period for the agency. Every function within the agency will be analyzed for its needs and costs and the budgets will be built around the requirements for the upcoming period based upon the strategic vision of the agency within the constraints of the approved agency service delivery platform. This will provide a structured process that will build a culture of responsible cost management for the agency.

Through this process the OSDH agency leadership will be able to map out a short and long-term sustainable budgeting strategy to:

- ◆ Review every dollar in the annual budget;
- ◆ Manage financial performance on a monthly basis;
- ◆ Build a culture of cost management;
- ◆ Develop clear visibility into actual cost drivers;
- ◆ Set aggressive yet credible budget targets;
- ◆ Create meaningful and open input among program managers;
- ◆ Create a platform to task program areas with managing performance;
- ◆ Create better system and process controls;
- ◆ Increase visibility into return on investment (ROI);
- ◆ Use ROI to establish labor thresholds for service delivery;
- ◆ Reinvest savings into better and improved service delivery for mandated services;
- ◆ Reduce general and administrative expenses that reduce mission effectiveness;
- ◆ Drive sustainable impact through cost measurement and sustainability analyses;
- ◆ Align mission with cost governance and cost accountability;
- ◆ Create top-down savings targets that reinvest into more productive areas;
- ◆ Help build efficiencies that will create teams that achieve targets;
- ◆ Surgically eliminate unproductive costs in order to build up the agency;
- ◆ Build unprecedented cost visibility and governance for the OSDH.

Included in the budget call process will now be a budget call memo from agency Senior Leadership which will include strategies, the program division's planning base, guidelines and a brief description of the vision of the strategic service delivery for the program area. A cost center (account) worksheet and a division summary spreadsheet which summarizes that division's current budget and expenses as well as a base target for the upcoming year will be accompanied by a personnel roster for the division head listing all full-time filled or vacant positions for the current fiscal year.

During this process, the program areas may have the opportunity to request above base allocations, as well as reallocate existing funds within their base once they have reviewed a worksheet of all personnel and non-personnel costs for the division and can appropriately financially and programmatically justify such with a well-reasoned approach. This does not mean that the allocations or reallocations will be automatically approved but will implement a disciplined analysis across program areas.

Non-personnel costs will also be justified as to program delivery requirements and goals and will have project management plans established during the budgeting process.

Agency budget reporting will require the maintenance of an original agency budget (original budgets will always be reported) and any budget movements will only occur through a system of separation of duties with proper agency oversight of the OSDH budget officer through the CFO. These budget changes will be made only after the agency's Senior Leadership has been apprised and provided the necessary input.

The following principles will be instituted for developing the operating budgets. Operating budgets will be developed with reference to the current strategic plan and toward a long-term fiscally sound perspective. Personnel and non-personnel costs will be separated and managed efficiently, emphasizing the activities with the highest delivery priorities.

Each division will then be required to submit a zero based budget request including a brief narrative of budget highlights related to the division. After the budgets are initially submitted, the division representatives will meet with the senior finance and budget staff to review the proposals. Budget staff will complete an analysis for each division's submission and prepare summaries for the Executive Leadership to be delivered through the CFO.

Discussions regarding divisional budgets will then take place between the Senior Leadership, senior financial personnel and senior division personnel. After the budget is reviewed, Senior Leadership will make the budget allocations so that a budget can be prepared for final approval by the Commissioner.

The balanced budget will result through thorough vetting and planning and will be submitted to OMES properly pursuant to state law.

The essential elements of the budgeting process for OSDH under its new budgeting platform will now consist of the following:

- ◆ Begin with a budget call process;
- ◆ Provide budget call instructions;
- ◆ Provide a budget call timeline;
- ◆ Require a multi-year Budget Call (development of a three-year planning cycle);
- ◆ Require meaningful planning & working sessions;
- ◆ Budget proposals will be due to the CFO as part of a project managed environment to meet deadlines efficiently;

- ◆ An administrative review group consisting of financial and program personnel will evaluate budget submissions and make recommendations to Senior Leadership;
- ◆ Senior Leadership will review budget submissions with Commissioner to make final decisions;
- ◆ Review will be followed by announcement of allocation and funding decisions;
- ◆ Positions will be proposed by full time equivalents (FTE) showing total cost;
- ◆ The Titles/Positions will be shown as part of a divisional operational platform (divisional organizational charts will be included);
- ◆ The fiscal year requested FTE will be shown;
- ◆ The fiscal year estimated salary costs will be shown with benefit costs also reflected;
- ◆ The two following fiscal years' salaries and benefit costs will be shown;
- ◆ There will be a justification required for the positions with an identification of the objective(s) for each position;
- ◆ There will be reasoning provided regarding any impact by the addition or reduction of an FTE (including discussion of efficiencies gained, funding, etc.);
- ◆ Potential savings and/or return on investment will also be a component of FTE justification analysis;
- ◆ There will be a job brief and organizational chart reflecting any new position that may be required for all staff increases and will also be mandatory as supplemental documentation;
- ◆ A non-payroll budget will also be shown to reflect the other divisional costs and the subcategories of the non-salary permanent budget to be comprised of items such as supplies and expenses, equipment, travel, shared services and other indirect costs and any other costs (with items listed in detail).

The OSDH budget process will be formalized, maintained and managed pursuant to established promulgated agency policy. This budget procedure will encompass the detail and accountability of the level of reporting that the OSDH will now present both internally across the agency and to external users. It will be maintained in order to reconcile to the information housed at OMES and support the fiscal integrity of the State of Oklahoma. The budget implementation and continuing analysis will be measured against actual reported results on a monthly basis so that the budget for the agency can be monitored as to correct and fiscally disciplined principles and for the required service delivery within the constraints of the budget as developed in order to maintain executive management and leadership of the agency's strategic vision and mission.

Other Process Improvement Activities

IT Licensure Project

OSDH has collaborated extensively with OMES on development of specifications for a new software platform to streamline licensure for regulated businesses and individuals, to make licensure services available through an online portal, and to reduce overall OSDH costs for administration of public health licensure programs. Implementation begins in 2018 and full operation of the system is anticipated for June 30, 2019. Projected benefits of the licensure management system include:

- ◆ Reducing average license processing days 20% from 10.17 days to 8.09 days by June 30, 2019.
- ◆ Reducing mail volume by 30%. Protective Health Services mail volume was approximately 110,000 at a cost of \$.49 per piece at a total estimated cost of \$51,603. A 30% mail volume reduction, or 33,000 pieces of mail, would result in a cost savings of \$15,500.00 per year;
- ◆ Reducing average days to collect revenue by 20%. OSDH currently does not obtain data on days to collect, but the new system will have collection as a built in feature. Although cost savings cannot be estimated at this time, this is an important opportunity because the system will track all fees, fines and payments to ensure they are collected and paid;
- ◆ Automating performance reports for core duties and making data available to managers in real time. OSDH projects a cost shift of approximately 900 labor hours for data and report compilation at \$24 per hour, for a total of \$21,600; and
- ◆ Moving 80% of public information and Open Records Act requests to the online portal, with a cost shift of approximately 460 labor hours at \$24 per hour, for a total of \$11,232.

IT Review

OSDH is undergoing an initiative to remove underutilized computer workstations across the agency. Currently, OSDH owns over 4,000 computer assets for approximately 2000 employees. Computer workstations include items such as laptops, desktop computers and tablets and are used by sanitarians, clinical staff and clerical staff. The process will involve determining locations and utilization levels of computer assets presently housed in each county health department as well as establishing a standardization of computer assets available for county offices going forward. Outdated and underutilized IT equipment will be surplused, and those in need of repair will be evaluated to determine if restoration is warranted.

Food Service Inspections Process

In December 2017, OSDH, the Food Service Advisory Council and other stakeholders initiated a working group to improve processes for scheduling routine and follow-up inspections of Oklahoma's 21,000 restaurants and other food service establishments. In 2018, the working group will develop recommendations to protect the public against foodborne illnesses, concentrate inspection resources on high-risk establishments, ensure consistency across county health departments, and improve quality of follow-up

inspections.

OSDH, Tulsa Health Department, and Oklahoma City-County Health Department identified 3,300 (16%) high-risk establishments, which account for 13,000 (32%) of 40,500 food service inspections annually. It is expected the efficiency improvements generated by the working group will result in a minimum of a 10% decrease in high-risk inspections, and will yield 1,300 fewer inspections; reduce food managers' time away from serving customers; and facilitate a net reduction of health inspectors by three FTEs for a cost savings of approximately \$180,000 per year.

Soliciting Employee Input

It has become common practice to seek input from stakeholders when attempting to develop actions to address problems, new ideas or improvements. Often, employees – especially those on the frontline – have insight into how improvements can be made that are highly practical and impactful.

At a time when an organization is in crisis, it is important to ensure employees have a voice, whether to ask questions, express concerns or make suggestions. Within three days of taking office, the Interim Commissioner released an anonymous feedback box to OSDH employees. Operated by a third party vendor, the receiver is not given any identifying information about the commenter other than that provided by the employee in the body of the comment. The system allows employees to request a response to their comments from the administration. The employee remains anonymous to OSDH when responding to the comment.

Many employees have used this venue to offer suggestions and cost savings ideas for the agency. OSDH employees are also able to use this confidential communication tool to provide information and general comments, present ongoing concerns or issues and ask those questions which they may not feel comfortable asking a direct supervisor. OSDH has received nearly 700 comments.

Next Steps

OSDH is an agency beginning the process of recovery and rebirth. These first two months have been focused on putting out fires, transitioning into new leadership and addressing a multitude of inquiries and investigations as elected officials and Oklahoma citizens struggle to understand what happened and how.

As the Interim Commissioner has stated many times, it's a time for a hard reset. A fresh start. It's time to go back to the basics—the core public health services and responsibilities with which this agency has been charged. Agency personnel must be realigned to support a new structure and programs and services must be closely evaluated to determine if they are core services and effectively and efficiently operated.

Lean and Efficient. For OSDH to be a responsible and responsive organization, it must be lean—no resources wasted. The agency must focus on its commitment to Oklahomans and strive to provide the most value possible without losing sight of the limitations of resources. By optimizing the organizational structure, we can make better uses of our resources, cut waste and improve our performance and service delivery. This requires careful consideration and assessment. Moving forward, the agency will evaluate each of the services we are currently providing, determining which services are mandated by law, and align those services with core functions. An in-depth cost vs. benefit assessment will be undertaken to assure the most appropriate outcome.

While assessment is important, time is of the essence and progress must be made so OSDH will balance methods with movement.

A potential project that supports the concept above is described below.

- ◆ **Consolidating Family Support and Child Guidance.** The Child Guidance Program (CGP) exists to address the mental health needs and well-being of children (birth to age 13) and families statewide. The Family Support and Prevention Service (FSPS) exists to identify and implement the best evidence-based programs for the prevention of child maltreatment, through home visiting models. These two areas have shared the same mission, improving the lives of young children and their families, so it is a natural fit to combine their efforts. By consolidating CGS and FSPS, the agency will address all three levels of prevention activities through coordinated efforts. Finally, over the past several years both CGS and FSPS have experienced downsizing due to state budget shortfalls and federal cuts to grants, so the administration of these service areas can be managed by one program director.

FAST. OSDH must become a FAST organization: a Flatter, Agile, Streamlined, and Technology-enabled agency. Following is an initial vision of how OSDH may accomplish becoming a FAST organization.

Flattening management means empowering employees. This organization has been managed in the past as if employees are to be quiet and obedient, leaving the decision-making to a powerful few. This must change. We must decentralize decision-making and build upon the talented people we have. We must have exceptional employees and empower them to be their best. Public health deserves no less.

We must ensure that the number of middle managers aligns with best practices for the size of OSDH. They must support the lean organization for which we are striving.

Technology-enabled is going to be challenging. It is an expensive endeavor. OSDH has many needs when it comes to technology. The agency has an outdated financial system (1970's era) without features and controls that have been basic in accounting software for decades, a separate budget system and a separate billing system, none of which is capable of integrating with each other or other state systems. The lack of financial system audit controls contributed significantly to the environment that allowed mismanagement to occur. The agency is in desperate need of an Enterprise Risk Management (ERM) system. The agency will be researching options and planning for a technology-enabled future.

Transparency and Accountability. Behind these buzz words are concepts critical to restoring the trust lost to this agency from the Legislature, the Governor and the public. Working with external partners, clearly and accurately reporting our condition and being accountable to our stakeholders is essential.

We will be undertaking the following projects to ensure the agency is clearly and transparently managing OSDH in accordance with statutory and state leadership requirements.

- ◆ **Human Resources Classification Status.** The staff of OSDH is a mixture of classified and unclassified positions, full-time, part-time, and temporary. They range from administrative support, direct care providers, such as nurses, to agency administration.

Like all other state agencies, OSDH relies on Oklahoma statutes, executive orders, and the Merit System of Personnel Administration Rules to determine which employee appointments should be classified and which should be unclassified. Traditionally the agency has had very limited authority for appointment to the unclassified service. Due to a desire and oftentimes a business necessity to make appointments to the unclassified service, under the previous administration many unclassified agency employees were appointed with job titles that technically fit the parameters for unclassified service, while their actual duties and working titles were not eligible for unclassified service.

Under the current administration, all appointments to unclassified service will be done in strict compliance with the standards established by statute and executive order. Further, the agency has begun the process to identify all unclassified employees with job titles that do not fit their working titles.

These employees will be properly classified according to new and existing statute and executive orders.

- ◆ **Audit and Investigation Findings.** With the current scrutiny directed at OSDH, there are bound to be issues found and reported. Senior Leadership is anticipating valuable findings that will lead to improved financial controls and other internal controls. These findings and recommendations will be embraced and given top implementation priority as we move this agency forward into its new and reimagined future.

Cost Savings. Government will always strive to balance resources with service delivery and business administration. A process of continuous improvement will be established to ensure OSDH is always evaluating cost against benefit when it comes to contemplating changes to achieve that balance.

- ◆ **Space Utilization.** OSDH completed a space utilization review. The space utilization review demonstrated areas for improved efficiencies. Currently, OSDH leases spaces at two locations in Oklahoma City, which are outside of its Central Office. Based on the space utilization review, the agency has the ability to better organize its current staff within the Central Office. Reorganization of the Central Office will provide the necessary space to move the staff located at the two outside facilities into the Central Office. The benefits of the proposed space solutions is two-fold—the agency reduces its

annual costs by eliminating two leases and gains efficiencies by consolidating staff previously spread throughout three locations.

Conclusion

OSDH is an organization in distress. The financial crisis in which it was left by the previous administration, the upheaval of staff separations and the uncertainty of what the future holds makes for a difficult environment.

Employees are anxious and demoralized. Their hard work and successes have been overshadowed by the devastating events that have occurred which, for most, was completely unexpected.

Partners outside of government and those within are negatively impacted by this situation as well. Contracts have been cancelled, ability to resolve payables is a concern and collaborative work is in question.

Finally, trust has been broken with the Legislature, the Governor, partners and most importantly, the citizens of Oklahoma who count on OSDH and the services it provides.

Through this report, OSDH has laid out a roadmap for turning OSDH into a productive and service-oriented organization with a strong management and financial foundation.

